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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

WILLIAM A. MUNDELL
CHAIRMANJIM IRVIN
COMMISSIONERMARC SPITZER
COMMISSIONER

JAN 11 2001

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
ARIZONA ELECTRIC POWER COOPERATIVE,
INC'S REQUEST FOR AUTHORIZATION TO
INCUR LONG-TERM DEBT

DOCKET NO. E-01773A-00-0227

DECISION NO. 63305ORDEROpen Meeting
January 9 and 10, 2001
Phoenix, Arizona**BY THE COMMISSION:**

On April 7, 2000, Arizona Electric Power Cooperative, Inc. ("AEPCO" or "Cooperative") filed with the Arizona Corporation Commission ("Commission") an application requesting approval of \$21,510,515 in long-term debt. On November 17, 2000, the Commission's Utilities Division Staff ("Staff") filed a Staff Report, in which it recommended approval of the application without a hearing.

AEPCO has provided adequate notice of the application and filed a letter with the Commission on December 13, 2000 verifying such notice had been provided

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. AEPCO is a Class A¹ non-profit electric generation and transmission cooperative located in Benson, Arizona.

2. AEPCO provides wholesale electricity to six Class A member cooperatives², two Class B members³, and one Class C member⁴ (collectively "Members"). AEPCO's members are located in Arizona and parts of New Mexico and California.

¹ Based on information contained in AEPCO's 1999 Annual Report to the Commission, the Applicant's total operating revenues were \$163,141,948.

1 3. Through the Cooperative's Members, AEPCO provides electrical power to
2 approximately 105,000 residential and business customers in the three-state area at rates and charges
3 approved by Commission Decision No. 58405 (September 3, 1993).

4 4. On April 7, 2000, AEPCO filed an application with the Commission requesting
5 approval of \$21,510,515 in long term debt through the Rural Utilities Service ("RUS")- Federal
6 Financing Bank ("FFB") guaranteed loan program. The actual interest rate will not be known until
7 the loan contract between RUS-FFB and AEPCO is finalized, so only an estimate of the actual annual
8 fiscal impact on the Cooperative can be made. According to the RUS, loans are presently being made
9 at an interest rate of 6.22 percent.

10 5. AEPCO has estimated that its loan will be in the form of fixed rate notes with an
11 interest rate of 6.25 percent based on an analysis of current yield curves.

12 6. Staff calculations determined that the annual debt service associated with the loan will
13 range from \$1,849,299 to \$1,924,520, based on interest rate of 6.00 and 6.50 percent, respectively.

14 7. On November 17, 2000, Staff filed its Staff Report in this matter.

15 8. AEPCO has provided notice of the application to its Members and subsequently filed a
16 letter with the Commission on December 13, 2000 verifying such notice had been provided.

17 9. The purpose of the proposed loan from the RUS-FFB is to finance transmission and
18 generation projects valued at \$14,360,920 and \$7,149,595, respectively.

19 10. The transmission project includes transmission lines valued at a cost of \$944,160, new
20 substations and switching stations totaling \$5,775,385, line and station changes totaling \$4,052,197,
21 other transmission items totaling \$1,971,746, and ordinary replacements on lines and substations
22 totaling \$1,617,432.

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25 ² AEPCO's Class A members include Duncan Valley Electric Cooperative, Graham County Electric Cooperative,
Sulphur Springs Valley Electric Cooperative, Trico Electric Cooperative, Mohave Electric and Anza Electric.

26 ³ AEPCO's Class B members are comprised of the City of Mesa Electric Utility, and Morenci Water and Electric
27 Company.

28 ⁴ AEPCO's Class C member is Salt River Project, which signed a 20-year 100 megawatt firm power contract in
1988.

11. The generation project will include new and replacement generation assets including a cooling tower, various types of scrubbers, a generator relay, and a coal loader for a total cost of \$7,149,595.

12. Staff Engineering has reviewed the projects and cost estimates and found them to be reasonable and appropriate.

13. As of December 31, 1999, AEPCO had long-term debt of \$318,505,317. Also during this operating period, AEPCO's financial statements indicate negative equity of \$4,099,373, resulting in 101.3 percent debt and negative equity of 1.3 percent.

14. Based on the Applicant's December 31, 1999 financial information, the pro forma effect of the loan will result in AEPCO having a TIER of 1.21 and DSC of 0.94⁵. Staff stated in its Report that although the ratios would indicate a less than satisfactory ability to maintain debt service coverage, Staff believes that AEPCO's past performance proves otherwise. Staff observed during operating periods from 1991 through 1999, that AEPCO was able to handle an even larger amount of long-term debt with lower TIER and DSC ratios during a previous operating year.⁶

15. AEPCO's balance sheet for 1999 reflected that the Cooperative had unrestricted cash and cash equivalents of \$15,490,868 or approximately 8.05 times the amount of increased debt service that the Cooperative would be obligated to pay if the proposed loan were approved at an interest rate of 6.5 percent.

16. Staff believes that, based on the information contained in AEPCO's balance sheet, that the Cooperative has the ability to meet its debt obligations despite the lower TIER and DSC ratios.

17. Staff's analysis indicated that AEPCO's capital structure after the proposed loan will result in 101.2 percent debt and negative equity of 1.2 percent, regardless of the interest rate that AEPCO obtains for the proposed loan.

⁵ Times Interest Earned Ratio ("TIER") and Debt Service Coverage ("DSC") are indices of an entity's ability to make interest payments and interest and principal payments on debt, respectively. A TIER of 1.50 and DSC of 1.25 are generally preferred. According to CFR 1710, AEPCO is required to have a TIER of 1.05 and DSC of 1.0.

⁶ During the period ending December 31, 1995, AEPCO had long-term debt of \$369,066,271. The Cooperative's TIER and DSC ratios for the same period were 0.85 and 0.79 respectively.

18. Staff stated in its Report that AEPCO's negative equity position resulted primarily from write-offs in 1987 of certain deferrals, in addition to the loss of Members' high demand customers in the late 1980's and early 1990's. The negative equity has declined from negative equity of \$49.4 million in 1992, to the current level of negative \$4.1 million.

19. According to Staff, the decrease in the negative equity is largely attributed to improved retained earnings, resulting from positive net margins realized during 1991 to 1994 and 1996 to 1999. Furthermore, AEPCO's negative equity position has never significantly impeded the Cooperative's access to debt financing. Staff believes that AEPCO's current negative equity position should not prevent approval of the proposed debt.

20. Staff concluded that the proposed financing is for lawful purposes, consistent with sound financial practices, and is in the public interest. Staff recommended approval of the application without a hearing.

CONCLUSIONS OF LAW

1. AEPCO is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

2. The Commission has jurisdiction over AEPCO and the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. The financing approved herein is for lawful purposes, within AEPCO's corporate powers, is compatible with the public interest, with sound financial practices, with the proper performance by AEPCO of service as a public service corporation, and will not impair AEPCO's ability to perform that service.

5. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

6. Staff's recommendation set forth in Findings of Fact No. 20 is reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc. is hereby authorized to borrow up to \$21,510,515 from the Rural Utilities Service-Federal Financing Bank for a term of up to 20 years at an interest rates then prevailing. The actual interest rate to be applied to the loan will be determined at the time of the financial transaction.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is hereby authorized to engage in any transactions and to execute any documents necessary to effectuate the authorization granted above.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file a copy of all executed loan documents with the compliance section of the Utilities Division within 30 days of obtaining such financing.

IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Arizona Electric Power Cooperative, Inc.'s use of the proceeds for the purposes set forth in the application.

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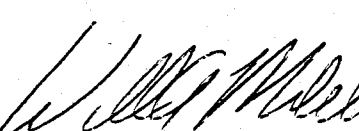
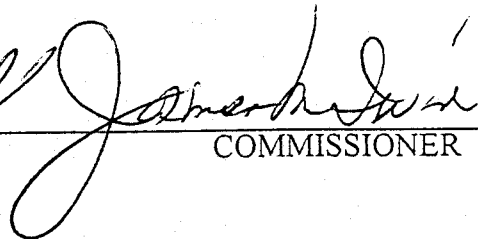
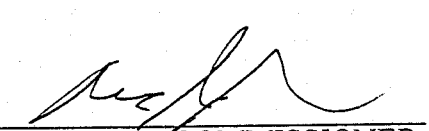
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1 IT IS FURTHER ORDERED that approval of the financing set forth above does not
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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8 CHAIRMAN  COMMISSIONER  COMMISSIONER
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11 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
12 Secretary of the Arizona Corporation Commission, have
13 hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this 14th day of January, 2001.

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18 BRIAN C. McNEIL
19 EXECUTIVE SECRETARY
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1 SERVICE LIST FOR: ARIZONA ELECTRIC POWER COOPERATIVE, INC.

2 DOCKET NO.: E-01773A-00-0227

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